

Community health improvement. An organization formed and supported by residents of an isolated rural community to provide a medical building and facilities at reasonable rent to attract a doctor who would provide medical services to the entire community is exempt under section 501(c)(3) of the Code.

Advice has been requested whether the activity of the organization described below is charitable for purposes of exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954 where the organization otherwise qualifies for such exemption.

The organization was formed for the declared charitable purpose of the promotion of health of the community through the development and improvement of medical facilities and services for persons residing in the community. The principal initial objective of the organization in that regard was to obtain a resident doctor for the community.

The community represented by the organization is a relatively isolated rural area. For a number of years there had been no medical practitioners located in the area, and the nearest regular practicing doctors were located a considerable distance away.

The lack of local medical service and the distance required to be traveled in order to secure the services of a doctor not only created a serious health hazard in the case of emergency illnesses and accidents, but also tended to discourage adequate routine medical attention for many of the members of the community.

From time to time, efforts had been made to induce a doctor to establish practice in the area, but all such efforts had failed. One of the principal reasons given by doctors for declining to set up practice in the community was the lack of an adequate building or office space for carrying on a modern medical practice.

To correct the deficiency and to assist in inducing a doctor to locate in the area, the organization erected a building suitable for use as a doctor's office. Funds for this purpose were raised by contributions from members of the community. The building contained office space, treatment rooms, and the basic equipment generally necessary for housing a modern medical practice. Using the availability of the building on a reasonable rental basis as an inducement, the organization entered into an arrangement with a doctor to locate in the community. The rental agreed to was less than what would be necessary to provide a normal return on the investment in the building and other facilities, but it nevertheless was negotiated in good faith.

Although it was understood that the doctor would be

professionally independent and would charge for his services, it was also understood that insofar as possible he would conduct his practice so as to make his services available to the entire community. In the latter respect the doctor agreed to treat patients requiring emergency care and, within reasonable limits on his time, to provide services for those unable to pay.

Under the terms of the arrangement, the building will remain under the control of the organization, and the rental arrangement is subject to termination by the organization on reasonable notice. The organization is committed to review the arrangement periodically in the light of community needs and to determine, on the basis of all surrounding circumstances, whether the arrangement should be continued or modified in the light of the community needs involved. At any point at which the organization determines that adequate medical services are available to the community without the continuation of the arrangement, either through the location of additional doctors in the area or otherwise, it is committed to the termination of the arrangement and the devotion of the property, or the beneficial use of the property, to such other charitable uses in furtherance of community health as it deems desirable.

The organization is supported by contributions from the community and the rental income from the building. The amounts received are used to meet the operation costs of the building and the amortization of the indebtedness incurred in the erection of the building. Any excess receipts are available for use by the organization in the promotion of health of the community.

None of the parties involved in founding the organization, in the negotiations with the doctor, or in the periodic review of the arrangements are related or associated in any way with the doctor involved.

Section 501(c)(3) of the Code provides for the exemption from Federal income tax of organizations that are organized and operated exclusively for charitable purposes, no part of whose net earnings inures to any private individual.

Section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations states that the term 'charitable' is to be used in its generally accepted legal sense. Section 1.501(c)(3)-1(d)(1)(ii) of the regulations provides that an organization is not organized or operated exclusively for any exempt purpose unless it serves a public rather than a private interest.

In the general law of charity, promotion of health is a charitable purpose. See Rev. Rul. 69-545, 1969-2 C.B. 117, and the citations therein. Assisting an isolated community lacking medical care to secure such care by reasonably necessary means is a method of promoting health in the legal sense of the term in the law of charity and, therefore, a charitable purpose. See *In re: Carlson's Estate*, 187 Kan. 543, 358 P.2d 669 (1961).

The circumstances in this case reveal the following facts particularly relevant to the determination of whether the devotion of resources to the provision of a physical facility for medical practice in the manner described qualifies as a charitable use: The community was totally lacking in local medical service, and the isolation of the community was such that the lack of such services posed a real and substantial threat to the health and safety of the community. The lack of adequate facilities for the conduct of a medical practice in the community was shown to be a significant factor in the inability of civic leaders of the community to induce a doctor to locate in the community. Providing the physical facility in the manner described bears a clear relationship to lessening of the health hazards resulting from the absence of a local practitioner in the community. The terms of the arrangement entered into to induce the doctor to locate his practice in the locality bear a reasonable relationship to promotion and protection of the health of the community. The arrangements in question were completely at arm's length, with no relationship between any person connected with the organization and operation of the organization and the medical practitioner induced to locate in the community.

In these circumstances, any personal benefit derived by the doctor (the use of the building in which to practice his profession) does not detract from the public purpose of the organization nor lessen the public benefit flowing from its activities and is not considered to be the type of private interest prohibited by the regulations. See *In re: Carlson's Estate*, supra, in which in similar circumstances the court held that a trust for the purpose of securing a medical practitioner for a small, isolated community that had been without medical services was charitable. The trust was to provide for the medical education of a young man on the condition that he would return to the community to practice. The trust was also to provide physical facilities in which he might conduct his practice and operate a clinic. The court concluded that providing the physical facility was but a means of bringing medical care to the inhabitants of a whole community which had been without medical services. Thus, the court held that the trust was charitable because it was for the benefit of the public rather than for the benefit of a single individual.

Accordingly, the activity herein described is charitable and the organization is exempt from Federal income tax under section 501(c)(3) of the Code.

Even though an organization considers itself within the scope of this Revenue Ruling, it must file an application on Form 1023, Application for Recognition of Exemption, in order to be recognized by the Service as exempt under section 501(c)(3) of the Code. The application should be filed with the District Director of Internal Revenue for the district in which is located the principal place of business or principal office of the

organization. See section 1.501(a)-1 of the regulations.